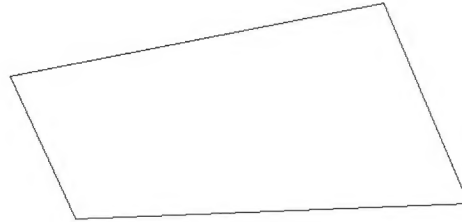




**Director of
Central
Intelligence**

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National Intelligence Daily (Cable)

10 May 1982

State Dept. review completed

DIA review completed.

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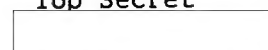
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UK-ARGENTINA: Resumption of British Attacks

//The UK yesterday ended the lull in military activity that had been in effect around the Falklands since early last week. At the same time, Argentine Foreign Minister Costa Mendez made statements intended to appear conciliatory, but they do not seem to represent a change in the basic Argentine position.//

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//British warships yesterday bombed Port Stanley and helicopters attacked Port Darwin.

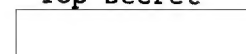
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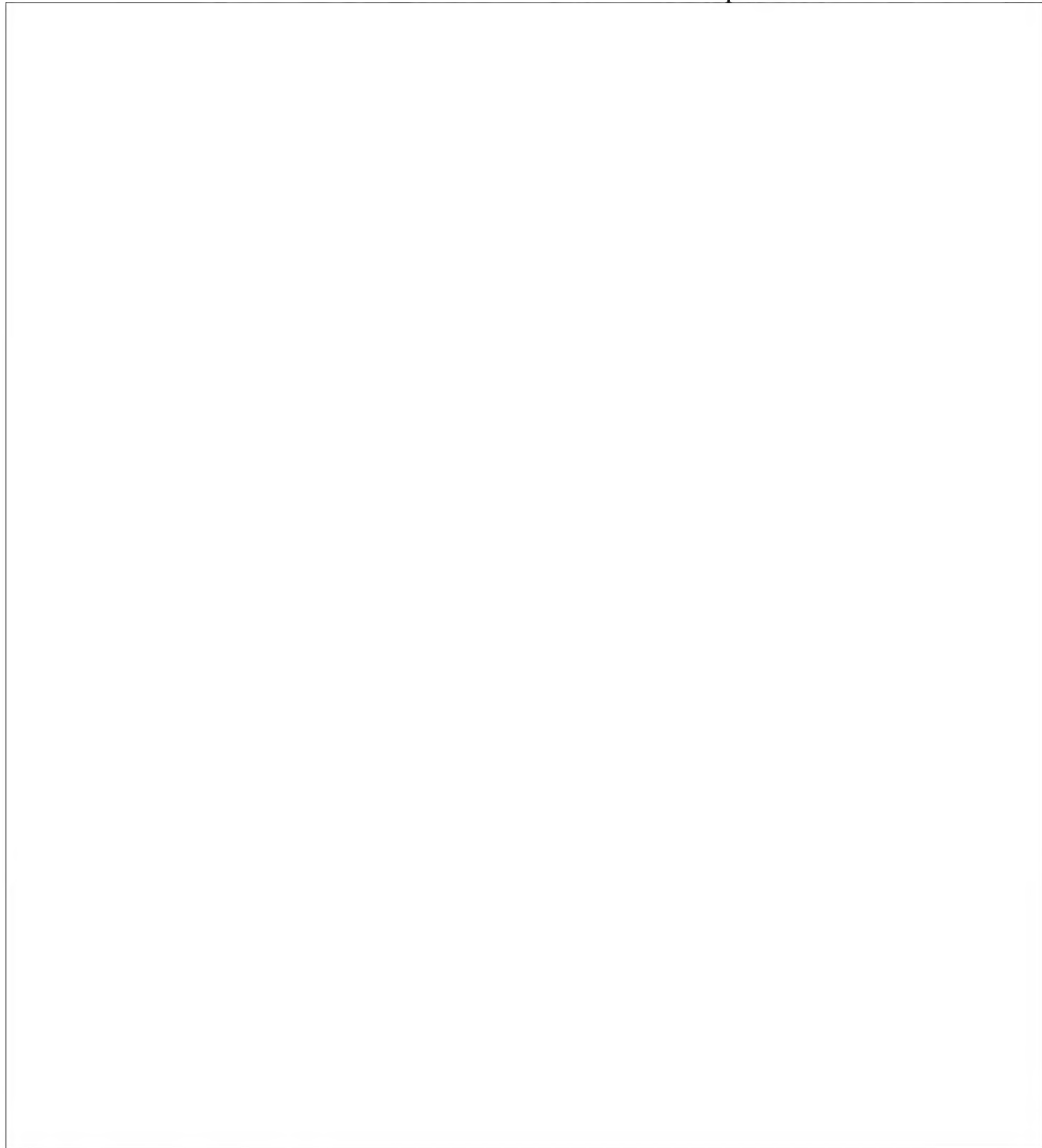
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Diplomatic Progress

Costa Mendez yesterday announced that his government no longer demanded British recognition of Argentine sovereignty over the islands as a precondition for negotiations--whether those were over a cease-fire,

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[redacted]

mutual withdrawal of forces, the temporary administration of the islands, or a final political settlement. He continued to insist, however, that Argentina must ultimately have full sovereignty over the Falklands. [redacted]

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//A Foreign Office spokesman later expressed London's doubts that Costa Mendez' statement represented a significant change in the Argentine position. The key stumblingblock remains Buenos Aires' demand that the negotiations eventually must lead to Argentine sovereignty.// [redacted]

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UN Secretary General Perez de Cuellar resumed discussions on the negotiations issue with Argentine and UK representatives yesterday. The British negotiator later announced that progress had been made and talks would resume today. [redacted]

[redacted] Under Secretary for Foreign Relations Ros announced that negotiations would continue despite the attack yesterday on the Falklands. [redacted]

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Comment: It is unclear whether Costa Mendez' statement represents an agreed government position. He has taken conciliatory stances in the past, only to be over-ridden by the junta. Costa Mendez probably wanted in part to persuade domestic and international opinion of Argentine willingness to pursue a political settlement and to increase the diplomatic pressure on the UK. His statement also may have been a delaying tactic, aimed at forestalling a British invasion until worsening weather makes such an operation much more difficult. [redacted]

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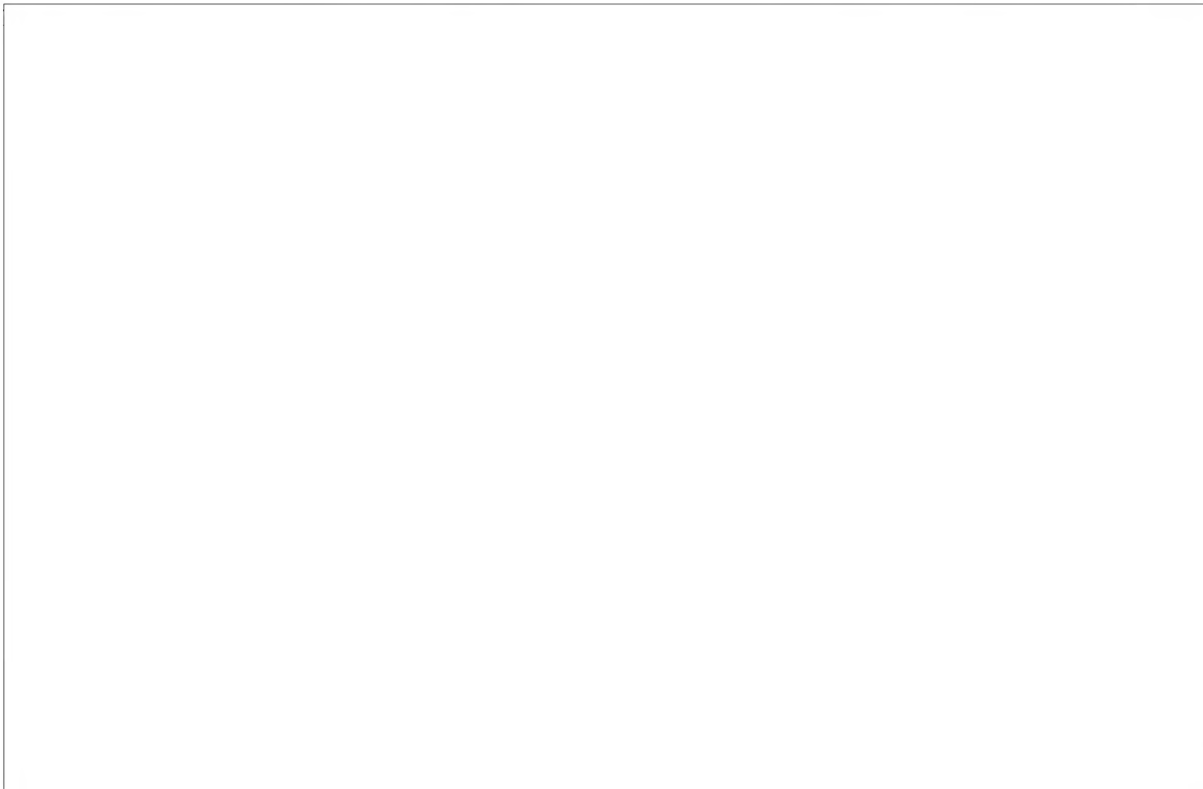
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Peruvian Reactions

//Peruvian President Belaunde has termed Britain's extension of its military exclusion zone "an act of insanity." Other influential Peruvian public figures, including former President Morales Bermudez, have "vehemently" told the US Ambassador in Lima that hemispheric reaction to US inflight refueling of British bombers would be strongly negative.//

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Comment: //Belaunde is considered a moderate Latin American leader who has attempted to mediate the conflict and promote a negotiated settlement. His comment underscores the mounting level of concern throughout Latin American capitals over the regional implications of further British military moves. Morales Bermudez' comment foreshadows what is likely to be the prevailing reaction in Latin America should the US openly assist Britain in its war effort.//

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INTERNATIONAL: Debt Payments Problems

Thirty-three countries were unable to pay their debts on time last year, more than twice the number in 1975, when the IMF began publishing such statistics.

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Only one of the 29 on the list in 1980--Benin--succeeded in bringing its payments up to date last year, while five--Poland, Romania, Vietnam, Haiti, and Liberia--joined the list for the first time. Most of the countries in arrears are African nations, 13 of which have been behind in their payments since at least 1975.

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The overdue debt at the end of 1981 totaled about \$7 billion, 8 percent of the payments due from all countries. This was slightly less than at the end of 1980, because eight countries succeeded in rescheduling some \$4 billion in debts that came due during the year.

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Comment: Many countries borrowed money to cope with the first sudden rise in oil prices in 1973 and 1974 and then found many of these loans coming due in the late 1970s at the time of the second oil price shock. Most were forced to borrow further in private international financial markets, where variable interest rates are the rule.

Interest rates have been exceptionally high in recent years, and, at the same time, many industrial countries have reduced their imports of mineral and agricultural commodities--exports that provide the main earnings of many developing countries, particularly the African. As their interest payments have been rising, their ability to meet them has been falling.

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The total amount of overdue payments is small in relation to the size of international financial markets, and defaults could be absorbed without much damage to the system. Defaults are unlikely, moreover, because banks generally prefer to reschedule loans rather than write them off if some interest payments are made or if there is any prospect of future repayment.

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Many of the countries in debt have been using money borrowed from the IMF to make interest payments, thereby reducing their arrears and encouraging creditors to re-schedule. Others have sought IMF loans but have been unwilling or unable to accept the stringent conditions attached to such loans, even though they have no other prospects of regaining solvency.

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CHINA-VIETNAM: Oil Leases in Disputed Waters

//China is including in its offshore oil leasing program several blocks in areas of the Gulf of Tonkin claimed by Vietnam, and bidding on the blocks by US and other foreign firms is likely to begin within a few months.//

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//In the past China has avoided drilling in waters claimed by neighboring countries. All Chinese drilling in the Gulf of Tonkin has been well east of the 108° 03' meridian, which was used to assign jurisdiction to islands belonging to French Indochina and China in a treaty signed in 1887 and which Vietnam has proposed as the current sea boundary.//

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//Beijing's new leasing program, however, includes blocks in the area claimed by Vietnam. The Vietnamese probably are not yet aware of the lease sites and have made no comment.//

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Comment:

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The Chinese action is likely to prompt Hanoi to repeat its warning of 1980 to the oil companies to stay out of disputed areas. Such a challenge probably would reduce the oil companies' interest in bidding on the disputed areas.//

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CHINA: Discrepancies in Trade Figures

China claims that its foreign trade resulted in a small deficit for 1981, but there is considerable evidence that it produced a record surplus. [redacted]

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Foreign trade figures recently released by Beijing show a deficit of \$6 million on exports of \$21.560 billion and imports of \$21.566 billion. The statistics of China's trading partners indicate that the Chinese had a record surplus of \$2.6 billion based on exports of \$22.5 billion and imports of \$19.9 billion. [redacted]

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Comment: The the Ministry of Foreign Trade's figures, moreover, contradict financial data reported by China's Ministry of Finance. The \$2.6 billion increase in foreign exchange reserves announced for 1981 and the \$1.2 billion reduction in debts to foreign banks would be difficult to explain if the trade accounts had shown a slight deficit, because trade dominates China's current account. Although China borrowed a record \$1 billion from international financial institutions in 1981, such loans cannot explain the large increase in Chinese assets and the steep decline in liabilities. [redacted]

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Western statistics on China's trade indicate that the figures published by the Ministry of Finance are accurate and that China's finances are greatly improved. Beijing released its trade figures two months later than normal, possibly a sign that decentralization of foreign trade has hampered the ability of the Ministry of Foreign Trade to measure two-way trade accurately. The Chinese, however, may be altering the statistics to avoid reporting a record surplus when they are seeking long-term, low-interest credits from the West. [redacted]

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POLAND: Peaceful Demonstration

The official celebration of V-E Day in Warsaw yesterday took place peacefully as large numbers of police provided security for the hour-long ceremony. Archbishop Glemp and Church officials throughout the country yesterday had urged the populace to avoid violence in its expressions of frustration with the regime. A regional Solidarity bulletin issued this weekend, meanwhile, announced the formation of a temporary national coordinating committee and repeated the union's call for a 15-minute work stoppage on Thursday. [REDACTED]

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Comment: Solidarity's new leadership committee apparently will try to revitalize and increase coordination of the union's efforts and will test further the regime's ability to circumscribe its activities. The government will find it difficult to deal effectively with the strike planned for Thursday. The absence of an official response probably would encourage Solidarity to sponsor more demonstrations, while overreaction with force could lead to violence. [REDACTED]

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SPECIAL ANALYSES

ARGENTINA-UK: Argentine Resupply Capabilities

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//Argentine supplies on the Falklands may reach critically low levels in about two weeks. Buenos Aires appears to be preparing plans to resupply its forces by parachute drops, by using smaller transport aircraft to fly in provisions, or by sea. The UK, which is aware of the supply shortages, almost certainly will respond to any Argentine resupply effort with force.//

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//If current diplomatic efforts do not indicate that a settlement is in the offing, the Argentine military probably will not wait until it has only a few days' rations left before trying to resupply the Falkland garrison. The Argentines may attempt a resupply effort by air or a run to the islands by surface ships under the cover of land-based aircraft.//

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Resupply Options

//The damage done to the airfield at Port Stanley by British air attacks probably is extensive enough that the airfield could not sustain continuous use by large transport aircraft. Argentine attempts to resupply the islands by air could involve paratroops and the use of smaller aircraft.//

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//Argentina's capability to airdrop supplies and equipment probably is limited. There is no evidence that the Argentines have practiced such complex operations, and it is therefore not likely that Buenos Aires would be able to deliver enough supplies to sustain its forces.//

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//An aerial resupply effort probably would rely more heavily on smaller transport aircraft flying into the airfield at Port Stanley or the other smaller airfields. Such flights, even in combination with airdrops, however, would not result in any significant increase in stocks on the islands unless an extensive effort were mounted. British aircraft or naval surface units would attempt to interdict these flights.//

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//Argentina also could attempt to resupply its forces by using military transports, commercial ships, fishing boats, or possibly foreign flag vessels. Because of their large cargo capacities, the use of transports and commercial ships, supported by air cover, may be an attractive option. The use of foreign flag vessels, however, could pose political problems and could take too much time to arrange.//

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COSTA RICA: Prospects for the Monge Administration

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The inauguration of President Monge returns Costa Rica to policies more consistently in line with US interests in Central America and less given to the economic and political eccentricities that have characterized the Carazo government. Monge inherits unprecedented economic problems that will defy quick solutions, however, and his prescription for strict austerity will immediately test public resolve and that of his own National Liberation Party. His task will be complicated by a potentially volatile situation along the northwestern border with Nicaragua, an inadequate security service, and the likelihood that extremists will attempt to exploit the economic situation.

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Costa Rica's virtual bankruptcy constitutes the most pressing threat to social tranquillity. Economic activity will drop some 6 percent in 1982, and imports will decline because of poor export performance, scarcity of foreign exchange, and limited access to credit. Unemployment is expected to reach 14 percent by July and consumers could soon face triple-digit inflation.

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Monge has used the time since the election to build a sound team of economic advisers. He is determined to reduce deficits and cut back on the public sector, now said to employ about 35 percent of the work force.

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Key components of his plan call for less government spending, reduction of subsidies, and increased private-sector productivity. To forge a partnership with the public and quickly test his electoral mandate, he also has promised higher prices and taxes, and has advocated a longer workweek.

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The austerity program faces challenges from the left wing of Monge's own party and from the powerful Communist labor unions. These unions are already leading a strike of medical professionals demanding a wage increase that would set a dangerously high precedent for public employees' salaries. The public views the medical professionals as a privileged class, however, and Monge could strengthen his popular support by withstanding union pressure.

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Complete economic recovery probably is years away. At minimum, it will require refocusing economic activity to include expanded markets beyond Central America, particularly in the US. Meanwhile, Costa Rica faces the prospect of a lower real per capita GDP in 1985 than it had in 1980. [redacted]

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International Relations

Monge senses that Costa Rica's reputation as the leading democracy in the region gives its foreign policies an influence disproportionate to its size. He probably is concerned that Carazo's divergence from traditional policy lines, including flirtations with the Arab states and the nonaligned movement, has reduced San Jose's credibility with its major Western allies and jeopardized foreign assistance. [redacted]

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To strengthen traditional ties, Monge has taken an increasingly tough line toward Communist subversion in Central America and has countered Communist propaganda at regional forums. In a recent interview, Foreign Minister Volio left little doubt that Monge holds Cuba and the USSR responsible for regional instability. The staunchly anti-Communist Volio ruled out diplomatic relations with Havana and implied that relations with Moscow will be cool. [redacted]

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Nicaragua presents the greatest foreign policy challenge. Monge's distrust of the Sandinistas and their arms buildup was a basic theme during his election campaign, and it is a major tenet of his foreign policy. He has repeatedly indicated that Costa Rica will rely on an OAS peace force to protect its borders in any war in Central America--a pointed reference to potential Sandinista aggression. [redacted]

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The border apparently is being violated by both Nicaraguan Army personnel and anti-Sandinista forces, and at least two recent skirmishes have been confirmed. The announcement by former Sandinista war hero Eden Pastora of his eventual intention to launch counterrevolutionary strikes from Costa Rica has forced Monge to assure Nicaragua that he will prohibit such activity. [redacted]

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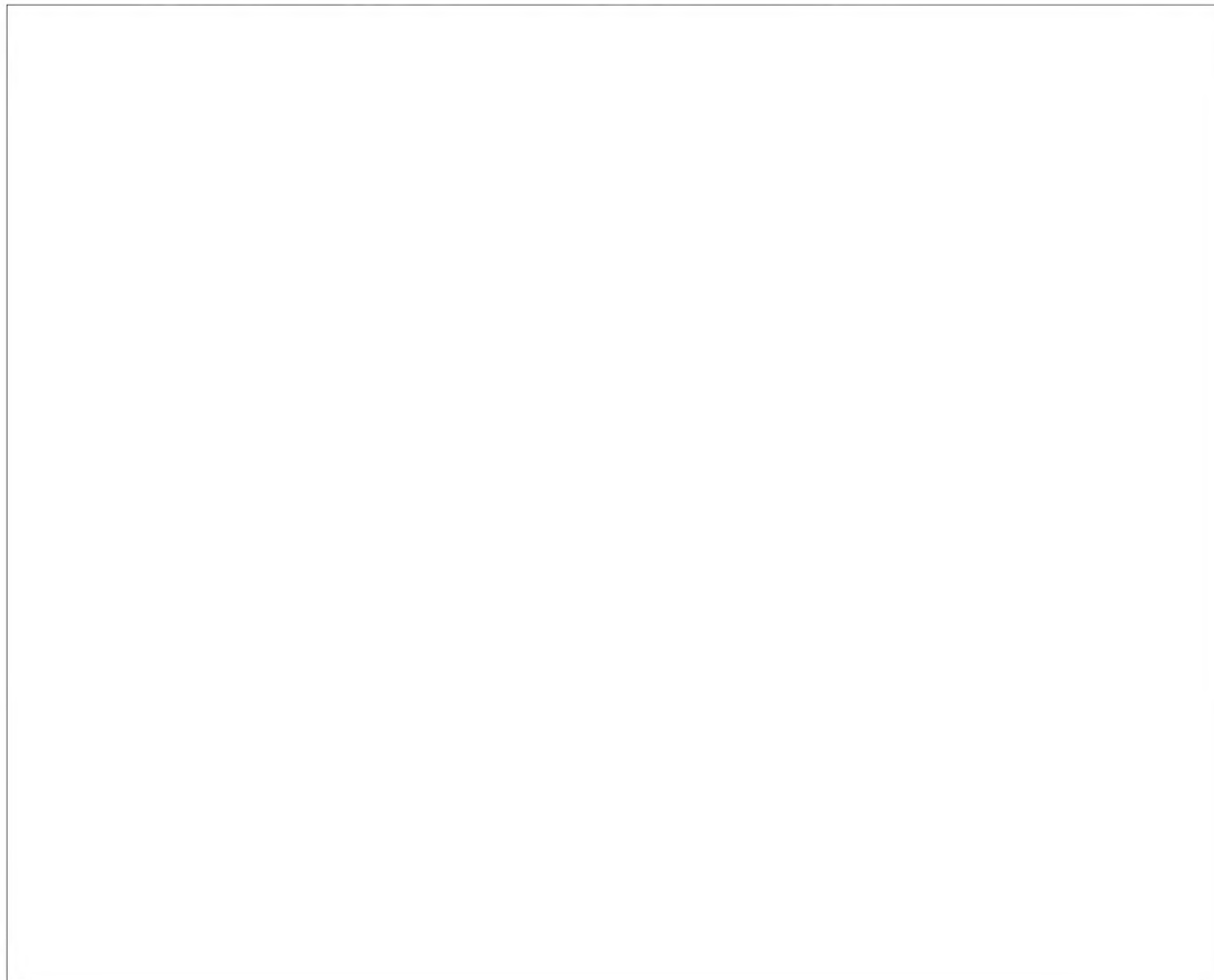


//Although Monge reportedly agrees with Pastora's goals, his decision reflects his fear of Sandinista reprisals. He probably also realizes that attacks staged from Costa Rica could ultimately jeopardize his reliance on OAS support against the Nicaraguans.//

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